



Algonquin Power & Utilities Corp.: A Name Warren Buffett Would Love

Description

For long-term, income-focused investors, a position in **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) can provide a nice portfolio boost, given the stock's current 5.4% dividend yield.

Algonquin Power is a stock which has had ridden the "interest rate wave" of late, dipping significantly following the Trump election victory in November and since then rebounding to levels seen at the beginning of 2016. As with many other interest-sensitive names in the utilities business, Algonquin Power's stock price mirrors market sentiment toward interest rates quite closely. As investors believe that interest rates will go up, the stock price of Algonquin Power drops, as investors seeking yield can move their money easily to bonds or other investment vehicles exhibiting high yields.

I believe the market has largely "priced in" future upward movements in interest rates with many utilities stocks, and Algonquin Power is not exempt. The rebound from the dip in the stock price toward 52-week lows in November is an indication that investors believe that interest rates are unlikely to rise to a level close to the stock's current yield of 5.4%, at least in the short term. A yield of 5.4% is high, and other interest-sensitive investments will need to see substantial increases to eat into the stock price of Algonquin Power further.

That said, future interest rate hikes from the Fed can significantly impact the company's stock price. Investors taking a long-term view of the market and expecting low to moderate interest rates for the next two to five years can be well rewarded by buying and holding a name like Algonquin Power.

Iconic investors like Warren Buffett have made fortunes off names such as Algonquin Power by holding them over the long term, benefiting from high yields and modest capital appreciation over long periods of time. The most likely scenario with Algonquin Power over the long run is very likely similar to that of other utilities (stocks Mr. Buffett is famous for owning): it will offer decent capital appreciation combined with decent yield over long periods of time.

For investors looking to “build a snowball” of compounded growth over the long term, names like Algonquin Power are safe places to start. After all, it is very difficult to disagree with the long-term investing strategy of the best.

Stay Foolish, my friends.

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